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Russia devalued

A desperate man's desperate measures will make his country only more desperate

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IT HAS not been a good week for Russia. The bundle of measures thrown to the financial wolves on Monday amounts to the end, for the time being at least, of all prospects of further economic reform. It may also mark the start of a political degeneration that sees the country slide towards nationalism, autocracy or something nastier. It consigns to the dustbin the last boast of the government's battered reformers, that their policies have at least brought currency stability and steady prices. And it leaves Boris Yeltsin, who has presided over one shambles after another, looking ever more inadequate.

A currency devaluation does not, in itself, automatically mean bad news for a country; sometimes it can be a tonic. Nor is a moratorium on debt repayment necessarily a sign of collapse. In Russia's case, however, these measures (see [article](#)) are poorly suited to remedy the economy's ills and, coming after nearly a decade of extreme hardship, are bound to deepen most Russians' cynicism about their political masters. They have been imposed, it should be remembered, only four weeks after the IMF and other foreign lenders agreed on \$23 billion-worth of props for the Russian economy, and only three days after pledges from Mr Yeltsin that there would be no devaluation and vows from his ministers that all debts would be honoured. What went wrong?

The short answer is that much of the lending has gone not to guarantee the deposits of deserving savers, nor even to pay the pensions of impoverished old folk or the wages of unpaid miners. Rather it has been squandered, or perhaps stolen. That hardly represents a change, but nor has it done anything for confidence in the system, and that, after all, was the problem the IMF agreement was meant to fix. That deal was a worthy bet, that time could be bought while new reforms would rebuild institutions and raise tax revenues. But confidence continued to ebb, the banks began to teeter and the men who run them—the “oligarchs” who paid for Mr Yeltsin's re-election in 1996 and have gobbled up quantities of privatised assets—began to squeal. Thus Russia's true priority re-emerged: these banks and their owners are now to be saved.

The danger is that the loss of confidence will continue. If so, the rouble—freed supposedly to float, but in reality to sink—could merely gurgle on downward, the

banks could be besieged by depositors large and small and, if no more credit from abroad is forthcoming, the government could be tempted to resort to the printing presses to meet their demands. That is the road to hyperinflation, which Russians experienced as recently as 1992 (when, in December, year-on-year inflation reached 2,500%), by which time they had seen their savings vaporised. Even if this is averted, import prices will surely rise, giving an inevitable impetus to inflation. Foreign investors, meanwhile, will have had a cautionary shock from the devaluation, just as lenders will have from the debt freeze. In other economies, some of these disadvantages might have been compensated for by a boost to exports, but Russia is at present incapable of producing much that foreigners want to buy except oil and gas, and even the energy industry is badly in need of foreign investment.

Such a grim economic outlook has a grim political counterpart. Even before the latest debacle, nationalist and communist candidates were manoeuvring to succeed Mr Yeltsin in the presidential election two years hence, if not before. Russians had plenty to complain about: a government so incompetent at collecting taxes that it could provide few services; a payments system so constipated that soldiers, miners, teachers and a host of other workers went without wages; appalling living standards even for those in work; ill-equipped hospitals, overcrowded prisons, pollution, early death. Plenty of politicians are ready to offer remedies for these ills. Some exploit nostalgia for the certainties of the Soviet past; many attribute Russia's troubles to unbridled capitalism and market economics; few are friendly to the West.

Good aim, bad execution

It was to forestall the rise to power of such politicians, and to keep Russia on some sort of democratic, capitalist path, that the West, through the IMF, has been ready to lend it money. The aim was, and remains, admirable, but the policy has not worked. The trouble is that, though the Russian government has been able to put forward plausible reformers like Anatoly Chubais, it has not been able, or perhaps willing, to use western money for proper ends. Quite simply, Russia lacks institutions and officials capable of applying large quantities of money honestly and efficiently. The IMF was right to extend a helping hand, but it should have insisted that the money it was providing was properly spent.

If lending is now to resume, it must only be on the strictest of terms. That should mean explicit conditions about what the money is to be used for—for instance, to guarantee small deposits in commercial banks. It should also mean stern supervision of how it is spent, preferably by appointing foreigners to run the banks in question. Similar oversight over the tax and customs services will have to be imposed if any support is to be given to the balance of payments.

And if the Russians say no? Or, just as likely, say yes but mean no? Then the West should also say no. The West has an interest in promoting democracy and market economics in Russia, though it stands to lose much less than the Russians themselves if these concepts fail to take root. It also has an interest in seeing a country that remains infested with nuclear weapons peaceful and non-belligerent. But it would be wrong to assume that it is in the West's power to bring all this about, certainly not through economic assistance alone. The unfortunate truth is that Russia is condemned by its own history, and its own people, to a period of acute unhappiness: all happy families resemble one another, Tolstoy might have

written, but the Russian family is unhappy in its own way. In the end it will be Russians, not foreigners, who bring its period of misery to a close.

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